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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Washington, D.C. 20410

FOREWORD

There are a number of families whose incomes are too high for public housing, but not high enough to compete for adequate housing in the private market. Some of these families have been forced into the market because of urban renewal or other governmental action.

To help these families obtain housing at prices they can afford, the Federal Housing Administration insures mortgages on special terms under the provisions of Section 221(d)(3) of the National Housing Act.

To keep the rents within the means of the people for whom the housing is intended, the Act authorizes a mortgage interest rate below the current market rate on FHA-insured mortgages.

Priorities for occupancy are given to families displaced by governmental action. Other families whose incomes are within the limits established by FHA also can qualify for occupancy, as can single elderly or handicapped persons. The terms of the program are summarized in this consumer bulletin.

ELIGIBLE MORTGAGES

Proposed new construction, and existing properties requiring rehabilitation, with five or more units may be eligible for mortgage insurance.

WORKABLE PROGRAM REQUIREMENT

Projects must be located in a community having a "Workable Program" which has been approved by the Secretary of Housing and Urban Development and certified by him to the FHA Commissioner.

A workable program is an official community plan for dealing effectively with slums and blighted areas. It is an assurance that neighborhoods will be preserved, improved, or rehabilitated, and that the community has a plan of action which will insure sound development of the area.

"Good housing should be within the reach of low and moderate income families--now and in the future."

Lyndon B. Johnson

A workable program certification must be in effect at the time a commitment is issued. If such certification was in effect when FHA invited submission of an application with fee, but has since expired, it remains effective for purposes of issuing a commitment.

INTEREST RATE

A mortgage insured under Section 221(d)(3) may carry a market interest rate (at the present time not more than 6 percent) or a below-market rate. This consumer bulletin outlines primarily the below-market interest rate provisions of the section.

Under these provisions, the interest rate during construction may be as high as the established FHA maximum interest rate at the time of construction. Upon final endorsement of the loan, the interest rate will be lowered to 3 percent. FHA waives the mortgage insurance premium of $\frac{1}{2}$ percent for projects with this low interest rate.

To provide financing at the below-market interest rate for Section 221(d)(3) projects, the Federal National Mortgage Association is authorized to purchase the mortgages under the FNMA Special Assistance Program.

ELIGIBLE MORTGAGORS

Projects may be developed by public agencies (except local housing authorities that obtain their funds exclusively for public housing from the Federal Government) or by cooperatives (including investor-sponsored), private nonprofit corporations or associations, or limited distribution corporations, or other mortgagors approved by the FHA Commissioner.

Nonprofit and Builder-seller Mortgagor

A nonprofit mortgagor is a corporation or association organized for purposes other than the making of profit for itself or persons identified with it and found by FHA to be in no manner controlled by or under the direction of persons or firms seeking to derive profit from it.

A builder-seller mortgagor is a special type of limited distribution mortgagor organized to build or rehabilitate a project and sell it, immediately upon completion, to a private nonprofit organization at the certified cost of the project.

Public Mortgagor

A public mortgagor is a Federal instrumentality, a State or its political subdivision, or an instrumentality of a State or of its political subdivision, which certifies that it is not receiving financial assistance exclusively for public housing from the Federal Government and which is acceptable to the FHA.

Limited Distribution Mortgagor

A limited distribution mortgagor is a corporation restricted as to distribution of income by the laws of the State of its incorporation (or by FHA) - or a trust, partnership, association, individual, or other entity restricted by law or by FHA as to distributions of income - formed exclusively for the purpose of providing housing and regulated as to rents, character of return, and operating methods in a manner satisfactory to the FHA.

Cooperative and Investor-sponsor Mortgagor

A cooperative mortgagor is a nonprofit cooperative ownership housing corporation approved by FHA. Permanent occupancy is restricted to the members, and eligibility and transfers of membership are subject to FHA controls.

An investor-sponsor mortgagor is a special type of limited distribution mortgagor organized to build or rehabilitate a project and transfer it to a cooperative. If the project is not sold to a cooperative within two years after completion, the investor-sponsor will operate it as a limited distribution corporation, for the purpose authorized.

MORTGAGE LIMITATIONS

For public agencies, cooperatives (including investor-sponsored), and nonprofit sponsors, mortgages on new construction may not exceed the replacement cost of the project; on rehabilitation projects, the estimated cost of rehabilitation plus the value of the project before rehabilitation; or if refinancing is involved, the estimated cost of rehabilitation plus the amount required to refinance the outstanding indebtedness. For limited distribution mortgagors, mortgages may not exceed 90 percent of these amounts.

The mortgage on any project is further limited by such factors as family income limits established by the FHA, and debt service considerations.

The maximum mortgage term is 40 years or three quarters of the FHA estimate of the remaining economic life of the property, whichever is less.

The maximum mortgage amount is \$12,500,000. The mortgage on any project is limited by construction costs and median income figures established by FHA for the area. Information regarding these limitations for a particular area may be obtained from the local FHA insuring office.

WORKING CAPITAL

Public and Private Limited Distribution Projects: If advances are to be insured during construction, two percent of the original principal amount of the mortgage will be required as working capital. This fund must be deposited with the mortgagee by the mortgagor and must come from sources other than mortgage proceeds.

Cost certification is required.
Prevailing wage requirements must be met.

Private Nonprofit Projects: An allowance of two percent to make the project operational, in lieu of working capital, may be included in the mortgage.

FHA CONTROLS

With respect to rent, carrying charges, and occupancy requirements, FHA controls will be maintained until the insured mortgage is paid in full. To prevent early refinancing and release of FHA controls, full or partial prepayment of the insured mortgage without approval of the FHA Commissioner is prohibited, except that limited distribution mortgagors may pay in full after 20 years from the date of final endorsement without such approval.

All housing financed under the program must operate in accordance with regulations as to rentals, charges, methods of operation, and occupancy requirements set forth by the FHA.

Occupancy is limited to families and to elderly or handicapped individuals of low and moderate income, with preference being given to displacees.

Up to 10 percent of the dwelling units in a project can be for the occupancy of single persons aged 62 years or older. Also, projects in urban renewal areas may include essential commercial and community facilities.

Projects may be sold only with the prior approval of FHA and subject to prescribed conditions.

EQUAL OPPORTUNITY IN HOUSING

FHA regulations under the President's Executive Order 1063 of November 20, 1962 require that housing provided with FHA assistance be made available without discrimination because of race, color, creed, or national origin.

The regulations prohibit any person, firm, or group receiving the benefits of FHA mortgage insurance or doing business with FHA from practicing such discrimination in lending or in the sale, rental, or other disposition of the property. Violations may result in discontinuation of FHA assistance.

One- or two-family dwellings which have been occupied by the owner are exempt from the regulations; but if the purchaser of such a home wishes to finance it with an FHA-insured mortgage the lender may not refuse to make the loan because of the buyer's race, color, creed, or national origin.